

**IOWA RACING AND GAMING COMMISSION
MINUTES
APRIL 3, 2014**

Following a tour of the proposed casino site in Cedar Rapids, Iowa, the Iowa Racing and Gaming Commission met at the Doubletree by Hilton Cedar Rapids Convention Complex. Commission members present were Jeff Lamberti, Chair; Carl Heinrich, Vice Chair; and members Rich Arnold and Kris Kramer. Commissioner Dolores Mertz was absent.

Chair Lamberti called the meeting to order at 10:00 AM, noting the main purpose of the meeting is to conduct the public hearing on the proposed Linn County casino as well as a question and answer segment with the applicants at the end. Chair Lamberti advised the agenda has been distributed, and requested a motion to approve the agenda. Commissioner Kramer so moved. Commissioner Heinrich seconded the motion, which carried unanimously.

Chair Lamberti advised the speakers have been divided into four groups to help make the process manageable. He stated the second group would be called to check in prior to the first group finishing their comments. Chair Lamberti set forth the following time limits for the speakers: individuals representing themselves will be allocated three minutes; speakers representing a group will be allocated five minutes; and those representing a current license holder will be allocated ten minutes. He stated that Brian Ohorilko, Administrator, would be the timekeeper. He requested individuals try to stay within the established time frames; that they state their name prior to commencing their comments; indicate if they are representing a group; and where they are from.

In Group 1, the following speakers spoke in favor of the Cedar Crossing application: Richard Running; Lu Baron, Chair of Linn County Board of Supervisors; Dee Baird, President/Chief Executive Officer (CEO) of Cedar Rapids Metro Alliance; Stephanie Redman, Kirkwood Community College; Raymond Dochterman, President, Cedar Rapids/Iowa City Building Trades; Bob Bruce, President, Board of Directors, Hawkeye Downs; Mike McGrath, Gary Wallin and Dan Thies, Ryan Companies/OPN Architects. These individuals supported the proposed casino for the following reasons: strong support to charitable and non-profit organizations; flood prevention; riverfront development; serve as catalyst for development in Kingston Village; job creation; additional business development in core business district; benefit local economy; middle-skilled jobs; good wages and benefits; flexible schedules; advancement opportunities within company; allow poverty-level families to become self-sufficient; good business environment; additional entertainment options; flood protection on west side of river; unlimited economic potential; design and material in harmony with neighborhood and reflect history of city; and leverage federal, state and city funds invested in city.

The following individuals spoke in opposition of the proposed casino: Dan Kehl, CEO, Riverside Casino & Golf Resort; Jesús Avilés, President/CEO, Dubuque Racing Association; Wendy Runde, Vice President/General Manager, Dubuque Diamond Jo; Ed Raber, Director, Washington Economic Development Group; Judy Bender, Chairperson, Meskwaki Tribal Council; and Gary Palmer, President and CEO, Prairie Meadows Racetrack & Casino, Inc.

These individuals spoke in opposition of the casino for the following reasons: independent market studies showing the Iowa market is saturated and no underserved markets; if granted, will unravel the well-managed system currently in place; stable regulatory environment; net loss of jobs within industry; net loss of charitable contributions; cannibalization of existing facilities; number of gaming positions per adult; lessen burdens of government; increased competition from other states; declining gaming revenues in gaming jurisdictions, including Iowa; devaluation of capital investments at current facilities; continue to improve lives of individuals within the tribe, the schools and medical facilities; declining revenues at current facilities, and capital investments in property have been reflected in increased revenues.

In Group 2, the following speakers spoke in favor of the project: Marilee Fowler, Cedar Rapids Area Convention & Visitors Bureau; Fred Timko, Kingston Square Association; Judy Morningstar; Jill Ackerman and George Lake, Marion Economic Development; Lon Olejniczak; Kate West, Rivers Edge; Reverend Doyle Landry, Positive Vision; and Lee Belfield, General Manager of the Hotel at Kirkwood College, and owner of Zins. These individuals spoke in support of the proposed project for the following reasons: convention attendees and tourism entertainment options; capstone project for Kingston Square district to encourage additional redevelopment; reclaim citizens and revenue from other casinos; economic development, job growth, improved quality of life and entertainment for all of Linn County and the region; ability to continue to build on what has been accomplished; flood recovery help; competition; and opportunity.

The following individuals spoke in opposition to the project: Patty Koller, President, Washington County Riverboat Foundation; Bill Poch, Mayor, Riverside; Jan Gallagher; and Matt Bemrich, Mayor, Fort Dodge. These individuals spoke in opposition of the proposed casino for the following reasons: loss of revenue to non-profits and distributions to charitable organizations and schools; enough gambling opportunities within the state; loss of economic benefits; and requested the Commission review all applications on an equal basis.

Prior to taking a short break, Mr. Ohorilko requested that Groups 3 and 4 report to staff.

Upon returning from the break, Chair Lamberti called on Groups 3 and 4. The following individuals spoke in favor of the project: Don Karr; Chad Heiman; Bob Chiusana; John Sipnotwitz; Doug Schumacher, West Side Development Group; Gary Ficken, Cedar Rapids Small Business Recovery Group; Larry Judd; and Mark Dauber. These individuals spoke in support of the project for the following reasons: rebuild west side of city; Cedar Rapids is economic engine for state; keep money in community; address workforce issue; entertainment options; opportunity for community to reach full potential; important to the redevelopment of the west side; help community to continue recovery from flood; jobs; and the city deserves a chance to have funds for its non-profits and the community.

The following individuals spoke in opposition of the proposed casino: Bari Richter, Vice President and General Manager, Isle Casino Hotel Waterloo; Tim Hurley, Black Hawk County Gaming Association; Buck Clark, Mayor, Waterloo; Dan Stromer, General Manager, Meskwaki Bingo Casino Hotel; Chris Hansen; and Mari Davis. These individuals spoke in opposition of

the proposed casino for the following reasons: effect on existing casinos in surrounding communities; loss of jobs; destabilization of gaming industry in the state; market saturation; not the right time; lack of population growth; decline in disposable income; cannibalization; saturated market; declining revenue at existing facilities in excess of one year; reduced attendance; loss of revenue to non-profits; states with much larger populations have half the amount of casinos as Iowa; trend of declining revenue at casinos across the nation; concern about low-income housing next to a casino; concern about being structured around river; and questioned how a casino fits in with seeking to be designated as a Blue Zone community.

Robert Bates addressed the Commission, but was not for or against the casino. He talked about various issues surrounding the flood, how various situations were handled; and problems in the city. He stated the survival of any city is not based on a casino, business or concept, but on the people that support the city.

Chair Lamberti stated the Commission would take a short break prior to commencing the question and answer portion of the meeting. He thanked everyone for attending, noting this is a vital part of the Commission's licensing process.

Chair Lamberti called the meeting back to order, and advised this portion of the meeting is designed for the Commission to ask questions of the applicant. Chair Lamberti provided the applicant the opportunity to respond to comments made during the public hearing.

Brent Stevens, an investor in Cedar Rapids Development Group (CDRG) and a partner in JNB Gaming, which would manage Cedar Crossing if a license is granted, referenced a comment citing Eugene Christiansen from a previous study. Mr. Stevens stated Mr. Christiansen was hired by the Commission in 1995 to advise the Commission at that time. His conclusion at that time was to limit competition. Mr. Stevens indicated CDRG saw the comment in the report prepared by Jack Ketterer, and reached out to Mr. Christiansen to find out if the statement was still a relevant perspective. Mr. Stevens read the following excerpts from an e-mail received from Mr. Christiansen: "The remarks Jack Ketterer attributes to me were made in 1995 in the context of a meeting of the Iowa Racing & Gaming Commission. I appeared before the Commission then to present the results of a market study intended to help the Commission decide the number of gaming licenses; i.e. the amount of supply that was appropriate at the time." Mr. Christiansen further stated that in the nearly two decades since that meeting, the market economics for gaming in the United States have undergone wholesale changes. Viewed from the perspective of 2014, Mr. Christiansen stated a policy of limiting the supply of gaming consequently raises different and, for many legislators and regulators, new issues. Is competition good for the gaming industry or is it bad? Does competition make casinos more or less financially viable? Are the fiscal, i.e. tax receipts, and the economics, i.e. jobs and capital investment, contributions of gaming most effectively insured by limiting supply or by the free market policy that governs most other goods and services in the United States? Mr. Christiansen concluded by noting that different economists might answer the questions differently; however, he believes that judging from the American experience to date the benefits of a free market policy toward gaming supply outweighs the disadvantages as far as fiscal and economic policy goals are concerned.

Mr. Stevens noted that Dan Kehl made reference to Iowa becoming an open Nevada-style market. He stated that CDRG is not saying Iowa should be opened up to a completely free market; they are simply asking to create a limited competition similar to Dubuque, Council Bluffs and the Quad Cities. It is their opinion that limited competition is good for Iowa.

With respect to saturation, Mr. Stevens stated that Cedar Rapids and Iowa City as a market is the second largest market in Iowa, and one of the fastest growing markets in Iowa. When considering one basic statistic about saturation, Mr. Stevens provided the following numbers: The population per position in Dubuque is 43 people per machine; in the Quad Cities, it is 112. He stated that with the prospective granting of the Cedar Rapids license, the market will have 173 people to every gaming position, which they believe is an indication the market is underserved and has plenty of opportunity for growth with the appropriate capital.

Steve Gray, an investor, apologized for a long day, but requested the Commission's indulgence while he presented a few indisputable facts, in his opinion. Regardless of which study is viewed, all of the studies show a net benefit to the state in a range from \$21 million to over \$60 million of net new revenue. He stated the mid-point of the two numbers, \$40 million, is larger than one-third of the existing operations in the state. Mr. Gray reiterated that Cedar Rapids is the second largest market in the state, and if not the fastest growing, one of the fastest growing markets in the state despite the fact they have not had a hotel, convention center, an arena, an amphitheater and a lot of the great things that both the taxpayers and individual investors have done. Mr. Gray stated that when the process was started three years ago, he was approached by Mayor Corbett, Justin Shields and Monica Vernon to help explore the possibility and feasibility of a casino to help Cedar Rapids do what needed to be done. He stated CDRG attempted to partner with many, if not most, of the same people that spoke in opposition to the project today on numerous occasions. The proposed project is about doing what is right for Cedar Rapids and the State of Iowa. He stated the investor group has backed the application because of the impact it could have on Cedar Rapids, and secondly, because of what it could mean monetarily.

Mr. Gray moved to the studies, noting the first concern was whether or not a referendum would pass. They hired a top firm to help with the referendum, which stated they would get 60,000 votes and win by 62%. Mr. Gray stated they received more than 60,000 votes and won by almost 62%. Next, they hired Suzanne Leckert at TMG, one of the most accomplished analysts in the state, and asked her to tell them what they needed to hear. Mr. Gray asked the Commission to consider how historically inaccurate previous market studies have been, up to and including Marquette and how badly they missed the mark previously. He stated that in most instances Marquette has over-estimated the in-market revenue and the impact on the surrounding markets, pointing out that in most instances, surrounding markets have seen increased instead of decreased revenues. Mr. Gray concluded his remarks by addressing viability. He referenced Mr. Hurley's comments about lost revenue to the non-profit, pointing out that Cedar Rapids has been the beneficiary of approximately \$80,000 a year from the casino industry; stating this is their opportunity to do something for the community like what has happened in Council Bluffs, Dubuque and the other markets. Mr. Gray referenced Mr. Kehl's comments with regard to the technical default. Mr. Gray stated that in talking with Mr. Kehl's banker, there have been over 100 instances of technical defaults in the last five years, and in only three of those instances has

the bank ended up owning the business as a result of the following: 1) They didn't believe in management; or 2) the businesses were insolvent. Mr. Gray stated that everyone could agree the Kehl family has been a tremendous operator; their management skills are not in question nor does he believe the company will go insolvent. Mr. Gray concluded his remarks by stating that he hoped Cedar Rapids has demonstrated their need for a casino as much as Waterloo, Riverside, Tama, and all the other markets that have really benefitted. He requested the Commission's support.

Chair Lamberti stated he felt the question portion of the meeting would be relatively short; noting this is the Commission's opportunity to delve into the viability of the project in terms of financing, design, location, amenities the Commission now requires from existing facilities and proposed facilities. Chair Lamberti stated he was comfortable in saying the application met the thresholds so that it would not be necessary to ask a lot of questions. He asked the applicant to confirm the estimated construction timeline and opening date in the event a license were granted based upon the Commission's action date.

Jonathan Swain advised that all of the architectural design has been completed, allowing them to get started immediately upon the granting of the license. He stated they would break ground within a couple of days; construction would take 14-months, with a proposed opening in July 2015.

Chair Lamberti indicated he had no further questions. He called for questions from the other Commissioners. Hearing none, he turned the floor over to Mr. Ohorilko.

Mr. Ohorilko asked for an explanation of the options that Peninsula Partners Cedar Rapids (PPCR) has with respect to purchasing additional shares in ownership; how many shares is PPCR allowed to purchase, and over what period of time.

Mr. Gray stated CRDG spent a considerable amount of time building community support; and as they built their local investor group, one of the fundamental questions was how they would achieve liquidity in the investment. As a result, Mr. Stevens and he reached an agreement that provides PPCR the option to purchase up to 5% of the outstanding shares from existing investors after the second year. If an investor is in a personal or professional situation, they can move to a "first come, first served" basis and move up the list, thus accommodating those individuals wanting to sell shares first. Mr. Gray advised that PPCR is obligated to purchase up to 35% of the existing shares over an eight year period. Mr. Gray stated the arrangement includes a guaranteed IRR formula that is a little over 17% per year; he advised there is a strike price each year. At the end of the eight year period, Mr. Gray stated the existing investors would be able to capitalize on 85% of the money they have invested and still own 65% of the shares they have sold. Mr. Gray stated this is a win-win situation; CRDG has a partner that is willing to provide liquidity for the shareholders in the event the shareholders want to sell, and there is a guaranteed price for the shares.

Mr. Ohorilko stated the Commission heard from the Division of Criminal Investigation at the March Commission meeting, and one of the details presented was the intricate ownership

structure proposed by CRDG with Mr. Stevens being a very critical piece of the ownership group. Mr. Ohorilko asked about the succession plan in terms of ownership and control of CRDG in the event anything would happen to Mr. Stevens.

Mr. Gray stated that within CRDG there is the financial wherewithal to finance the entire project from an equity perspective. He stated that when they approached the 200 investors, they asked them to provide a range of what they would be willing to invest; they then allocated on the lower end of the two numbers so the project was fully financed without the participation of JNB Gaming and PPCR; however, they did not feel that was the right thing to do. Mr. Gray stated that should something happen to Mr. Stevens, he is hopeful Mr. Stevens would suggest that Mr. Gray and Mr. Swain would be able to take over.

Mr. Stevens stated that in terms of Peninsula Pacific and the investment deal, it is largely made up of capital from himself and the family trust. There are a few outside investors that were involved in Peninsula Gaming, and one large institution – Eden Vance, a Boston-based mutual fund. Mr. Stevens stated that in terms of any entity relating from himself personally down through the organization to CRDG, he stated there are appropriate measures in place that take into consideration “what if” something bad were to occur. He indicated he would share the details if requested.

Mr. Gray stated that CRDG was thrilled to have JNB Gaming as a part of the application, but the investor group stands ready to supplement any capital shortfall in the event of an unlikely event. He stated CRDG feels they have adequate equity.

Mr. Stevens stated that in regards to financial control – there is a governance control; there is no control that ultimately cedes or changes over a period of time. As it is presented today and all of the basic corporate requirements for asset sale, sale of the company, incurrence of debt and investments, they are governed by a board. A super majority is also required for any action, providing for a redundancy in the event something would happen to any of the key board members.

Chair Lamberti called for any further questions. He reiterated, as indicated earlier, that the Commission did not expect this portion to be particularly long.

Hearing no further comments, questions or business to come before the Commission, Chair Lamberti requested a motion to adjourn. Commissioner Kramer so moved. Commissioner Arnold seconded the motion, which carried unanimously.

MINUTES TAKEN BY:

JULIE D. HERRICK